

## Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CEA-01 CIAE-00 COME-00 EB-07  
FRB-03 INR-07 NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00  
LAB-04 SIL-01 OMB-01 AGRE-00 SS-15 NSC-05 /069 W  
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R 181325Z JAN 77  
FM USMISSION EC BRUSSELS  
TO SECSTATE WASHDC 2787  
INFO ALL REC CAPITALS 2987  
USMISSION OECD PARIS

C O N F I D E N T I A L EC BRUSSELS 00474

E.O. 11652: GDS  
TAGS: EFIN, EEC  
SUBJECT: PRIORITIES FOR NEW EC COMMISSION IN ECONOMIC AND FINANCIAL  
AREA

1. SUMMARY: GAUTIER-SAUVAGNAC, CHEF DE CABINET FOR EC COMMISSION VICE PRESIDENT ORTOILI, DISCUSSED THE PRIORITIES OF THE NEW COMMISSION IN THE ECONOMIC AND FINANCIAL AREAS WITH MISSION OFFICER. GAUTIER-SAUVAGNAC DESCRIBED THE PRIME ECONOMIC OBJECTIVE OF COMMISSION IN BROAD TERMS AS THE CREATION OF AN AREA OF RELATIVE MONETARY AND ECONOMIC STABILITY IN EUROPE. EFFORTS TO ACHIEVE THIS WOULD BE HEAVILY CONDITIONED BY THE EXTERNAL ENVIRONMENT, IN PARTICULAR THE UNITED STATES. THUS ONE OF THE FIRST OBJECTIVES WOULD BE THE ESTABLISHMENT OF CLOSE WORKING RELATIONSHIPS WITH THE NEW U.S. ADMINISTRATION. THE PROSPECTIVE VISIT OF FICE PRESIDENT MONDALE WAS ENTHUSIASTICALLY GREETED AS A FIRST STEP IN THIS DIRECTION. END SUMMARY.

2. EC COMMISSION VICE PRESIDENT FRANCOIS-XAVIER ORTOLI, FORMERLY COMMISSION PRESIDENT, HAS NOW TAKEN OVER THE ECONOMIC AND FINANCIAL AFFAIRS PORTFOLIO IN THE NEW COMMISSION. GAUTIER-SAUVAGNAC, HIS CHEF DE CABINET, IN A DISCUSSION WITH MISSION OFFICER, CONFIRMED  
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SUPPOSITIONS THAT ORTOLI IS LIKELY TO BE A MUCH MORE ACTIVIST COMMISSIONER IN THIS AREA THAN HIS PREDECESSOR, WILHELM HAFERKAMP.

3. WE ASKED GAUTIER-SAUVAGNAC TO DESCRIBE HOW ORTOLI AND HIS CABINET ASSESSED THE PRIORITIES OF THEIR NEW RESPONSIBILITIES. HE RESPONDED THAT THESE PRIORITIES

HAD NOT YET BEEN SORTED OUT IN DETAIL. HOWEVER, IN BROAD TERMS, THE PRIME OBJECTIVE WOULD BE TO CREATE AN AREA OF RELATIVE ECONOMIC AND MONETARY STABILITY IN EUROPE. THIS DID NOT MEAN ACHIEVEMENT OF THE GOAL OF ECONOMIC AND MONETARY UNION, WHICH WAS NOW WELL BEYOND THE HORIZONS OF THIS COMMISSION. BUT IF THE MORE MODEST GOAL OF RELATIVE ECONOMIC AND MONETARY STABILITY COULD NOT BE ACHIEVED, HE FEARED THAT THE TWO CORNERSTONES OF THE EC, THE COMMON AGRICULTURAL POLICY AND THE CUSTOMS UNION, WOULD CRUMBLE AND THE EC WOULD BE REDUCED TO A KIND OF PERPETUAL CONGRESS OF VIENNA.

4. THE WAY TO ACHIEVE THIS OBJECTIVE LAY NOT AT FIRST THROUGH EXCHANGE RATE ARRANGMENTS, BUT THROUGH THE REDUCTION OF THE WIDE ECONOMIC DIVERGENCIES AMONG MEMBER STATES. THIS WOULD NEED TO BE ACCOMPLISHED THROUGH INTERNAL NATIONAL POLICIES. THE EC WOULD NEED TO TAKE A MORE ACTIVE ROLE IN ADVISING, PERSUADING, AND IN SUPPORTING NATIONAL ECONOMIC POLICIES AIMED AT A COMMON STABILITY. IN THIS CONNECTION, HE LAID GREAT IMPORTANCE ON FURTHER COMMISSION EFFORTS TO GET MEMBER STATES TO PUBLICLY ESTABLISH AND RESPECT HARMONIZED MONEY SUPPLY TARGETS.

5. IN RESPONSE TO A QUESTION, GUATIER-SAUVAGNAC SAID THAT BY EC SUPPORT FOR NATIONAL POLICIES HE DID NOT HAVE IN MIND ADDITIONAL OR EXPANDED EC BALANCE OF PAYMENTS FINANCING FACILITIES. THIS WAS NOT TO BE PRECLUDED, AND EXISTING EC FINANCIAL MECHANISMS WOULD

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NEED TO BE USED WISELY IN PURSUIT OF A COMMON STABILITY, BUT MORE FINANCING WAS NOT OF FIRST ORDER IMPORTANCE. IN CONNECTION WITH THE QUESTION OF FINANCING WEAKER MEMBER STATES, HE POINTED OUT THAT THE UK WAS RECEIVING A VERY SUBSTANTIAL EC SUBSIDY THROUGH CAP MONETARY COMPENSATORY AMOUNTS, BUT WITHOUT ANY COUNTERPART OF COMMUNITY LEVERAGE OVER UK POLICIES.

6. WE ALSO ASKED WHETHER, IN VIEW OF THE TIME THAT WOULD BE REQUIRED TO REDUCE ECONOMIC DIVERGENCIES EVEN UNDER BEST CIRCUMSTANCES, AND IN VIEW OF LIMITED FINANCING RESOURCES, HIS COMMENTS IMPLIED THAT PROPOSALS FOR MORE INTRA-EC EXCHANGE RATE COORDINATION SUCH AS THE DUISenberg PLAN WERE LIKELY TO BE KEPT ON A BACK BRUNER FOR THE TIME BEING. GAUTIER-SAUVAGNAC AGREED THAT CONDITIONS MADE IMPLEMENTATION OF SUCH A PLAN DIFFICULT, ESPECIALLY CONSIDERING THE DIVERGENT VIEWS OF MEMBER STATES ON THE PROPOSAL, BUT SAID THAT MORE EXCHANGE-RATE COORDINATION APPLY TO NON-SANKE

COUNTRIES WAS STILL DESIRABLE. THE DUISENBERG PLAN WOULD "NOT BE PUT IN THE FRIDGE BUT KEPT COOKING."

7. GAUTIER-SAUVAGNAC EMPHASIZED THAT POSSIBILITIES FOR SUCCESSFUL ACHIEVEMENT OF "AREA OF RELATIVE MONETARY AND FINANCIAL STABILITY" WERE HEAVILY CONDITIONED BY THE EXTERNAL ENVIRONMENT, IN WHICH THE U.S. AND THE DOLLAR PLAYED A DOMINANT ROLE. IN PARTICULAR, EUROPE COULD NOT ACHIEVE MONETARY STABILITY WITHIN ITS AREA WITHOUT CLOSE COOPERATION AND HELP FROM THE UNITED STATES, AND HE SUGGESTED THE NEED FOR MORE COOPERATION ON EXCHANGE RATE AND INTEREST RATE POLICIES. (HE RECOGNIZED, HOWEVER, THAT THE U.S. COULD NOT BE ASKED TO RE-ESTABLISH SPECIFIC EXCHANGE RATE AIMS RELATIVE TO EUROPEAN CURRENCIES). THUS THE COMMISSION WOULD PLACE THE HIGHEST IMPORTANCE ON ACHIEVING A CLOSE RELATIONSHIP WITH THE NEW U.S. ADMINISTRATION. AS ONE  
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CONCRETE STEP HE SUGGESTED THAT THE TWICE-A-YEAR BILATERAL CONSULTATIONS BE BROADENED FROM ITS PRESENT EMPHASIS ON COMMERCIAL RELATIONSHIPS TO INCLUDE SPECIAL EMPHASIS ON ECONOMIC AND FINANCIAL MATTERS.

8. THE PROSPECTIVE VISIT OF VICE PRESIDENT MONDALE WAS VIEWED AS AN EXTREMELY IMPORTANT SIGN THAT THE UNITED STATES TOOK A SIMILAR VIEW OF THE IMPORTANCE OF ITS RELATIONSHIP WITH THE COMMUNITY, AND AN OPPORTUNITY TO TAKE A FIRST STEP TOWARDS A CLOSER RELATIONSHIP.

9. COMMENT: WE HAVE TALKED TO SOME COMMISSION STAFFERS CONCERNED THAT ORTOLI'S LEADERSHIP MIGHT STIMULATE AN ABUNDANCE OF UNREALISTICALLY AMBITIOUS PROPOSALS, PARTICULARLY IN THE MONETARY AREA, WHICH WOULD PRODUCE MORE HEAT THAN PROGRESS. GAUTIER-SAUVAGNAC IT SEEMED TO US, HAS TEMPERED HIS ACTIVIST ENTHUSIASM WITH A CONSIDERABLE DOSE OF REALISM. HE SEEMED TO HAVE LARGELY ACCEPTED GERMAN VIEWS ON THE PRIMARY ROLE OF INTERNAL POLICIES TO ACHIEVE ECONOMIC CONVERGENCE AND MONETARY STABILITY, AND SURPRISED US WITH HIS LUKE-WARM ATTITUDE ON THE DESIRABILITY TO EXPAND EC BALANCE-OF-PAYMENTS FINANCING MECHANISMS. HIS SUPPORT OF THE DUISENBERG PLAN CAME ONLY IN RESPONSE TO A QUESTION, AND WAS ALMOST PRO FORMA. HIS COMMENTS SUGGESTING THE NEED FOR MORE GLOBAL MONETARY COOPERATION WERE FRENCH IN SPIRIT, BUT CAUTIOUS AND MODERATE IN TONE. HINTON

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Margaret P. Grafeld  
Declassified/Released  
US Department of State  
EO Systematic Review  
22 May 2009  
**Markings:** Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009